

## Message Text

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51

ACTION EB-11

INFO OCT-01 NEA-10 ADP-00 SSO-00 SS-15 COME-00 CIAE-00

INR-10 NSAE-00 RSC-01 USIA-15 PRS-01 OPIC-12 AID-20

IGA-02 TRSE-00 XMB-07 OMB-01 CIEP-02 L-03 RSR-01 /112 W

----- 036663

R 081437Z AUG 73

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 6074

INFO AMEMBASSY ISLAMABAD

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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FOR DENT AND CASEY FROM AMBASSADOR

E.O. 11652: N/A

TAGS: BEXP

SUBJ: STATE/COMMERCE COOPERATION ON COMMERCIAL PROGRAM

REF: STATE 141993

1. WE WELCOME THE OPPORTUNITY PROVIDED BY YOUR MESSAGE TO SUGGEST PROBLEM AREAS WHICH COULD BE DISCUSSED BY THE JOINT STATE/COMMERCE COMMITTEE OF ADVISERS. IN INDIA AND ALL OF THE DEVELOPING COUNTRIES, FOR THAT MATTER, TWO ISSUES STAND OUT: THE FIRST DEALS WITH THE SEARCH FOR NEW WAYS TO DEVELOP MARKETS FOR US PRODUCTS IN DEVELOPING COUNTRIES. THE SECOND CONCERNS THE INTERPLAY BETWEEN HOST GOVERNMENTS AND AMERICAN FIRMS WHO WISH TO INVEST IN THE DEVELOPING COUNTRIES IN LIGHT OF NATIONALISTIC DRIVES IN THESE COUNTRIES WHICH CHALLENGE TRADITIONAL FORMS OF FINANCIAL PARTICIPATION, TRANSFER OF TECHNOLOGY, AND REMITTANCE OF EARNINGS.

2. THE APPARENT DEFEAT OF THE PORTION OF THE FY 74 AID

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LEGISLATION WHICH CALLED FOR THE ESTABLISHMENT OF A \$1 BILLION

EXPORT FINANCING FUND HAS COME AS A BLOW TO THOSE OF US WHO BELIEVE THAT ANY EXPANSION OF US EXPORTS TO THE DEVELOPING WORLD WILL BE DIFFICULT WITHOUT PROVISION OF MORE AND BETTER EXPORT CREDIT FACILITIES. I HOPE THAT THE STATE/COMMERCE ADVISERS WILL BE ABLE TO DISCUSS AT AN EARLY MEETING ALTERNATIVE PROPOSALS TO THE AID EXPORT FUND. WHY, FOR EXAMPLE, COULD NOT THE FUND BE ESTABLISHED AS A SOFT WINDOW FOR BUYERS SUCH AS INDIA WHO WANT OUR PRODUCTS BUT WHO OFTEN HAVE DIFFICULTY PAYING FOR THEM ON COMMERCIAL TERMS? INDIA WILL SPEND A SUBSTANTIAL PART OF ITS FOREIGN EXCHANGE RESERVES ON FOOD THIS YEAR. AT THE SAME TIME, THERE IS AN URGENT NEED TO IMPORT POWER GENERATION EQUIPMENT, FERTILIZER, MACHINERY FOR THE TEXTILE EXPORT INDUSTRY, ETC. WE RUN THE RISK OF LOSING THESE LARGE PROSPECTIVE ORDERS TO RUPEE PAYMENT COUNTRIES AND OTHERS SUCH AS THE UK, FRG, CANADA AND JAPAN, WHICH FOR YEARS HAVE USED CONCESSIONAL AID OR SURPLUS CREDITS PROGRAMS TO HELP THEIR EXPORTERS GAIN A Foothold HERE. WE SHOULD MEET THE CHALLENGE BY GIVING OUR OWN EXPORTS, WHICH BECAUSE OF RECENT EXCHANGE RATE RELIGNMENTS ARE MORE PRICE COMPETITIVE THAN EVER, A BOOST.

3. IN THE AREA OF FOREIGN INVESTMENT, WE ARE WITNESSING A SLOWLY DETERIORATING CLIMATE IN INDIA. FOREIGN INVESTORS WILL BE DISCOURAGED FROM HOLDING LARGE (OR EVEN MAJORITY) EQUITY SHARES IN JOINT VENTURES AS THEY HAVE IN THE PAST; ROYALTY AND PATENT RIGHTS AGREEMENTS WILL BE OF SHORTER DURATION; AND THE GOI WILL INCREASINGLY SCRUTINIZE REMITTANCES OF DIVIDENDS. SOME AMERICAN COMPANIES HAVE REACTED VERY QUICKLY AND POSITIVELY TO THESE CHANGES IN THE RULES OF THE GAME -- OTHERS HAVE NOT. MY IMPRESSION IS THAT IN GENERAL, EUROPEAN INVESTORS FORESAW THE NATIONALISTIC DRIFT EARLIER, MADE THE NECESSARY CHANGES, AND AS A RESULT HAVE RECEIVED MUCH LESS ADVERSE PUBLICITY. INDIVIDUAL US COMPANIES MAKE THEIR OWN DECISIONS ABOUT THEIR OVERSEAS INVESTMENTS. THAT SHOULD NOT CHANGE. WHAT I AM RECOMMENDING IS THAT COMMERCE AND STATE SET UP CONSULTATIVE MACHINERY TO ASSIST AMERICAN COMPANIES IN DEVISING NEW FORMS OF PARTICIPATION IN DEVELOPING COUNTRIES. CERTAINLY SOME IDEAS SUCH AS RAY VERNON'S "PHASE OUT" PROPOSAL SHOULD BE EXPLORED BOTH WITHIN THE USG AND JOINTLY WITH PRIVATE BUSINESS.

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4. WITH RESPECT TO THE COMMERCIAL TACTICS COVERED IN

PARA 1 REFTEL WE WOULD LIKE TO TAKE THIS OPPORTUNITY TO NOTE THE GREATLY ENHANCED EFFECTIVENESS AND GOOD COOPERATION BETWEEN EMBASSY AND WASHINGTON AGENCIES WHICH CURRENTLY CHARACTERIZES THE TRADE PROMOTION PROGRAM. KEEP IT UP.  
MOYNIHAN

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